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# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

**Lafayette, Louisiana**

**Financial Report**
**Years Ended April 30, 2010 and 2009**

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**Darnall, Sikes,**
**Gardes Frederick**

(A Corporation of Certified Public Accountants)



# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lafayette Neighborhoods' Economic
Development Corporation
Lafayette, Louisiana

We have audited the accompanying statements of financial position of the Lafayette Neighborhoods' Economic Development Corporation (LNEDC) (a nonprofit corporation) as of April 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lafayette Neighborhoods' Economic Development Corporation as of April 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 14, 2010 on our consideration of the Lafayette Neighborhoods' Economic Development Corporation's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

*Darnall, Sikes, Gardes & Frederick*
A Corporation of Certified Public Accountants

Lafayette, Louisiana
September 14, 2010



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LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Financial Position
April 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 317,425 | $ 255,456 |
| Loans receivable (net) | 443,013 | 478,652 |
| Accrued interest receivable | 38,792 | 35,047 |
| Other receivables | 29,033 | 1,643 |
| TOTAL CURRENT ASSETS | $ 828,263 | $ 770,798 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 2,500 | $ 3,200 |
| Due to affiliated organization | 105,290 | 105,096 |
| TOTAL CURRENT LIABILITIES | 107,790 | 108,296 |
| NET ASSETS | | |
| Permanently restricted | 720,473 | 662,502 |
| TOTAL LIABILITIES AND NET ASSETS | $ 828,263 | $ 770,798 |

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Activities
Years Ended April 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| PERMANENTLY RESTRICTED NET ASSETS | | |
| Revenue: | | |
| Governmental grants | $ - | $ - |
| Interest: | | |
| Loans | 63,737 | 41,860 |
| Investments | 374 | 442 |
| Other | 2,350 | 2,760 |
| Total support and revenue | 66,461 | 45,062 |
| Expenses: | | |
| Support services - | | |
| Management and general | 8,490 | 96,826 |
| Increase (decrease) in permanently restricted net assets | 57,971 | (51,764) |
| Net assets, beginning | 662,502 | 714,266 |
| Net assets, ending | $ 720,473 | $ 662,502 |

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows
Years Ended April 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | $ 57,971 | $ (51,764) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in loans receivable | 35,639 | 96,883 |
| Change in other receivables | (27,390) | 3,400 |
| Change in accrued interest receivable | (3,745) | (19,403) |
| Change in accounts payable | (700) | 700 |
| Change in due to affiliated organization | 194 | 92 |
| Net cash provided operating activities | 61,969 | 29,908 |
| Net increase in cash | 61,969 | 29,908 |
| CASH AND CASH EQUIVALENTS, beginning of year | 255,456 | 225,548 |
| CASH AND CASH EQUIVALENTS, end of year | $ 317,425 | $ 255,456 |

See independent auditor's report and notes to financial statements.

## NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lafayette Neighborhoods' Economic Development Corporation (LNEDC) is a non-profit corporation organized under the provisions of the Cooperative Economic Development Law of the State of Louisiana. The LNEDC operates as a component unit of the Lafayette Consolidated Government who provides oversight to the program.

Nature of Activities

The LNEDC was organized to help alleviate conditions of economic distress in the City of Lafayette's low and moderate-income neighborhoods by stimulating greater private capital investment in these target areas. To accomplish this goal, the LNEDC provides financing to new and expanding small businesses in Lafayette. The organization is exempt from income taxes.

Significant Accounting Policies

A. Loans

Loans are stated at principal amounts outstanding as of the statement of financial position date, less the allowance for possible loan losses.

B. Allowance for Possible Loan Losses

The allowance for possible loan losses is maintained at a level considered adequate by management to absorb potential losses. The allowance is increased by provisions charged to program expenses and reduced by net charge-offs. The Corporation makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, and other relevant factors in determining the adequacy of the allowance.

C. Expenses

Revenue and expenses are recognized on the accrual basis.

D. Statement of Cash Flows

For purposes of the statements of cash flows, the organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

## NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### E. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### F. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS 168") (ASC Topic 105). SFAS 168 establishes the FASB Accounting Standards Codification (the "Codification" or "ASC") as the single source of authoritative, nongovernmental generally accepted accounting principles ("GAAP"), other than guidance issued by the SEC. ASC does not change GAAP; it introduces a new structure for organizing GAAP and limits the hierarchy to two levels-authoritative and non-authoritative. ASC is effective for interim or annual financial periods ending after September 15, 2009. The Company adopted ASC beginning on September 15, 2009 and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, the Company is providing the Codification cross reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

### G. Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (ASC 855) which establishes general standards for accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This is effective for financial periods ending after June 15, 2009. The management has evaluated events subsequent to the balance sheet through September 14, 2010, the date the financial statements were available to be issued.

## NOTE 2 LOANS

Loans receivable are comprised of loans to local business owners in a specific geographical area. These loans were made for working capital, debt refinancing, and fixed asset acquisition. Collateral is comprised of chattel mortgages on business equipment and collateral mortgages on real estate. Interest is accrued on outstanding loans from the date of the last principal payment.

NOTE 2 LOANS (CONTINUED)

The following summary reflects activities in the loan accounts for the years ending April 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Balance, beginning | $ 552,993 | $ 632,829 |
| Loans made | 81,211 | - |
| Payment received | (102,930) | (46,387) |
| Collection of loans previously written off | 4,437 | 6,822 |
| Loans written off | - | (40,271) |
| Balance, ending | $ 535,711 | $ 552,993 |

The following is an analysis of the allowance for loan losses:

| | 2010 | 2009 |
|---|---|---|
| Balance, beginning | $ 74,341 | $ 57,295 |
| Loans written off | - | (40,271) |
| Collection of loans previously written off | 4,437 | 6,822 |
| Increase in provision for loan losses | 13,920 | 50,495 |
| Balance, ending | $ 92,698 | $ 74,341 |

NOTE 3 COMPENSATION OF BOARD OF DIRECTORS

Members of the Board of Directors were not paid per diem or other compensation during the years ended April 30, 2010 and 2009.

NOTE 4 CONCENTRATION OF CREDIT RISK

The Organization provides financing to a diversified group of businesses located primarily in the Lafayette area. This assistance is provided based on an evaluation of each customer's financial condition, business knowledge, sufficiency of collateral, etc. Credit losses, upon occurrence, are provided for within the financial statements.

NOTE 5 UNINSURED DEPOSITS

LNEDC maintains its cash deposits in high quality financial institutions. Cash balances may, at times, exceed FDIC insurance coverage. However, LNEDC has securities pledged to cover any cash balances not insured by FDIC insurance. At April 30, 2010 and April 30, 2009, the market value of the pledged securities plus the federal deposit insurance equal or exceeded the amount on deposit with the bank.

## NOTE 6 DUE TO AFFILIATED ORGANIZATION

During the year ended April 30, 1997, LNEDC entered into a joint venture with the Downtown Development Authority (DDA) to establish a low interest loan fund administered by LNEDC to assist with exterior renovations of commercial buildings in the downtown area. LNEDC contributed $35,000 and DDA contributed $100,000. These funds are restricted for loan purposes only. Upon dissolution of the Facade Grant Program, the $100,000 will be paid to DDA as well as any interest earned on loans made, prorated between LNEDC and DDA. Included in the balance sheet under the captions "Other Receivables" and "Due to Affiliated Organization," are receivables and payables relating to this program.

## NOTE 7 REAL ESTATE TRANSACTION

During the year ended April 30, 1994, the Organization was the recipient of a donation of real estate from the State of Louisiana. LNEDC subsequently sold the property and received $50,000 cash and a 15-year, six-percent promissory note for $1,198,000 (which is subordinated to a construction mortgage obtained for renovations). The intent of the parties was that the buyer would pay accrued interest annually to the extent of surplus cash from operation of the property (after all operating expenses, debt service obligations, distributions required to be made to the purchaser of limited partnership interests and reasonable reserves).

All unpaid interest was accrued and deferred; but not compounded. Upon maturity of the note on March 1, 2010, LNEDC was to receive a donation of the property as payment of the outstanding balance of its mortgage and accrued interest receivable.

It should be noted that as of September 14, 2010, the buyer has not transferred ownership of the real estate back to LNEDC and has not paid any of the accrued and deferred interest. The buyer has requested an extension through December 31, 2010 in regards to the present arrangement. LNEDC is currently holding discussions with the buyer through legal council to determine whether the property will be voluntarily transferred to LNEDC in satisfaction of the indebtedness or whether litigation will be necessary.

In accordance with FASB 66, Accounting for Sales of Real Estate, recognition of the profit on the sale of property should be reported when (1) the collectability of the sale price is reasonably assured and (2) the earnings process is virtually complete. Since collectability of the entire sales price is questionable, management has chosen not to recognize either gain or the receipt of property, as significant uncertainties continue to exist.

## NOTE 8 FAIR VALUE MEASUREMENTS

On May 1, 2008, the Organization adopted the provisions of SFAS No. 157, *Fair Value Measurement* (ASC 820-10). ASC 820-10 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the inputs used to develop those assumptions and measure fair value.

NOTE 8 FAIR VALUE MEASUREMENTS

The hierarchy requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted process included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing methods, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following methods and assumptions were used by the Organization in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents – The carrying amount of cash and short-term instruments approximate fair value.

Accrued interest – The carrying amounts of accrued interest approximate their fair values.

The Organization's adoption of ASC 820-10 did not have a material impact on its financial statements. The Organization has no financial assets and liabilities that are measured at fair value on a recurring basis.

The Organization has segregated all financial assets and liabilities that are measured at fair value on a nonrecurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

**Nonrecurring Basis**

| | Fair Value Measurements at April 30, 2010 | | | |
|---|---|---|---|---|
| Description | April 30, 2010 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Impaired Loans | $ 122,794 | $ - | $ - | $ 122,794 |
| Total | $ 122,794 | $ - | $ - | $ 122,794 |

## NOTE 8 FAIR VALUE MEASUREMENTS

In accordance with the provisions of SFAS Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (ASC 310-10), the Organization records loans considered impaired at their fair value. A loan is considered impaired if it is probable the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value is measured at the fair value of the collateral for collateral-dependent loans. Impaired loans with a carrying amount of $179,912 were recorded at their fair value at April 30, 2010.

## INTERNAL CONTROL AND COMPLIANCE

**Darnall, Sikes, Gardes & Frederick**

(A Corporation of Certified Public Accountants)




## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Lafayette Neighborhoods' Economic
Development Corporation
Lafayette, Louisiana

In planning and performing our audit of the financial statements of Lafayette Neighborhoods' Economic Development Corporation (LNEDC) as of and for the year ended April 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered LNEDC's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LNEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of LNEDC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 10-1, 10-2 and 10-3, to be material weaknesses.




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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of LNEDC are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. We describe these instances in the accompanying schedule of findings and questioned costs, as items 10-1 and 10-3.

LNEDC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit LNEDC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties. However, Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Darnall, Sikes, Gardes & Frederick*

A Corporation of Certified Public Accountants

Lafayette, Louisiana
September 14, 2010

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Summary Schedule of Prior Year Findings
Year Ended April 30, 2010

| | | |
|---|---|---|
| 09-1 | Finding: | Incomplete Loan Files |
| | Status: | This finding is unresolved. See current year finding 10-1. |
| 09-2 | Finding: | Inadequate Segregation of Accounting Functions |
| | Status: | This finding is unresolved. See current year finding 10-2. |
| 09-3 | Finding: | Annual Monitoring |
| | Status: | This finding is unresolved. See current year finding 10-3. |

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Schedule of Findings and Questioned Costs
Year Ended April 30, 2010

Part 1: Summary of Auditor's Results

FINANCIAL STATEMENTS

Auditor's Report - Financial Statements

An unqualified opinion has been issued on the Lafayette Neighborhoods' Economic Development Corporation's (LNEDC) financial statements as of and for the year ended April 30, 2010.

Material Weaknesses – Financial Reporting

Three material weaknesses in internal control over financial reporting were disclosed during the audit of the financial statements and are shown as items 10-1, 10-2 and 10-3 in Part 2.

Material Noncompliance - Financial Reporting

Two material instances of non-compliance were disclosed during the audit of the financial statements, and are shown as items 10-1 and 10-3 in Part 2.

FEDERAL AWARDS

This section is not applicable for the fiscal year ended April 30, 2010.

Part 2: Findings Relating to an Audit in Accordance with Government Auditing Standards

10-1 Finding: Incomplete Loan Files

LNEDC has a standard checklist for loans which details the documentation required on each loan. This checklist is to be completed annually; however, in our review of the loan files we found that various required information was not on file for some borrowers.

During the course of our audit, we noted that required submissions and reports required to be filed with the Lafayette Consolidated Government had not been filed timely or in some cases not filed at all.

Recommendation:

We recommend the LNEDC perform a thorough examination of the outstanding loan files and determine if the required documentation is on file. For those loans which lack specific documentation, LNEDC should obtain the necessary information; also, LNEDC should review the loan files subsequent to issuance and preferably annually, to ensure that documentation is current for all information required. Additionally, required reports should be filed timely with the Lafayette Consolidated Government as required.

10-2 Finding: Inadequate Segregation of Accounting Functions

Due to the small number of personnel, LNEDC did not have adequate segregation of functions within the accounting system.

Recommendation:

Based on the size of the operation and the cost-benefit of additional accounting personnel, it may not be feasible to achieve complete segregation of duties.

10-3 Finding: Annual Monitoring

The loan program administered by LNEDC requires annual monitoring to be performed on loan recipients. During the year, various outstanding loans had no such monitoring performed.

Recommendation:

LNEDC should perform annual monitoring procedures on outstanding loans.

Part 3: Findings and Questioned Costs Relating to Federal Programs

At April 30, 2010, the LNEDC did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore, this section is not applicable.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Management's Corrective Action Plan for Current Year Findings
Year Ended April 30, 2010

Response to 10-1:

Incomplete Loan Files

LNEDC has responded promptly to all information requests from the Lafayette Consolidated Government in a timely and complete manner.

The LNEDC administrative staff was unaware of the document which listed the reporting requirements to Lafayette Consolidated Government. After obtaining a copy of those requirements, the LNEDC administrative staff has implemented a response plan to comply with the requirements. All new or recent LNEDC loans have complete loan files. Older loan files are being worked to bring them up to the required status.

Response to 10-2:

Inadequate Segregation of Accounting Functions

No response is considered necessary.

Response to 10-3:

Annual Monitoring

Annual loan monitoring continues to be a source of difficulty. All active clients are mailed a copy of monitoring forms and are requested to complete and return them to LNEDC. If assistance is needed to complete the forms, the administrative staff of LNEDC will assist the client.

For new or refinanced loans, annual monitoring forms are included in the loan as a standard part of the paper work.

Efforts to collect annual monitoring information will continue, with the administrative staff of LNEDC conducting on site visits.